liable for the "act[s], omission[s] or failure[s] of any officer, agent **or** other person acting for or employed by any common carrier or user, acting within the scope of his **employment**."⁴³

Section 308(b) of the Communications Act states in pertinent part that "[a]Il applications for station licenses, or modifications or renewals thereof, shall set forth such facts as the Commission by regulation may prescribe as to the citizenship, character, and financial, technical, and other qualifications of the applicant to operate the station..." (Emphasis added). Similar language regarding construction permit applications is found in §319(a), and, under the provisions of §310(d) of the Act, applications for transfer or assignment of permits or licenses are treated as if the proposed transferee or assignee were filing under §308. Accordingly, the Commission has long recognized its authority to establish standards of conduct and has in fact done so on numerous occasions, as, for example, in the establishment of the broadcast decency standards and in their enforcement against Title III licensees.

B. The Commission has Already Applied Title III Standards to Title II Licensees

In 1988, the Commission held that the *Character Policy Qualification Statement* – originally drafted for and applied only to broadcast licensees – applies equally to non-broadcast licensees. Examination of non-FCC related conduct of FCC licensees has been a long-established part of the licensing process for television and radio broadcasters because of the FCC's recognition that an applicant's misconduct may reflect on the "likelihood that an applicant"

70439v8 -16-

⁴³ 47 U.S.C. § 217.

⁴⁴ MCI Telecommunications Corp., *3 FCC Rcd 509*, *515 (1988)*, citing Policy Regarding Character Qualifications in Broadcast Licensing, *102 FCC 2d 1179*, *1195-97*, *1200-03 (1986)* ("Character Policy Qualifications"), modified, *5 FCC Rcd 3252 (1990)* ("Further Character Policy Statement"), recon granted in part, *6 FCC Rcd 3448 (1991)*, modified in part, *7 FCC Rcd 6564*, *6566 (1992)* ("Further Character Qualifications Modifications").

will deal truthfully with the Commission and comply with the Communications Act and our rules and policies."⁴⁵

Since extending the applicability of the *Character Policy Qualifications* statement in 1988, the Commission rigorously applied the standards to entities that hold Section 214 authorizations, 46 submarine and cable landing licenses, 47 earth and space station authorizations: and Part 22 cellular licenses. 49 In determining whether or not it should allow the assignment of Section 214 authorizations, the Commission noted that it was "required to determine whether [the proposed assignee had] the necessary citizenship, *character*, financial, technical and other qualifications" The Commission should now evaluate WorldCom by the same *Character Policy Qualifications* standards that have been diligently applied to other licensees in the past to determine whether this example of corporate misbehavior lights a path for the formulation of a

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70439v8 -17-

⁴⁵ Character Policy Qualifications, 102 FCC 2d ut 1196.

⁴⁶ See, e.g., Applications for Consent to the Transfer of Control **of** Licenses and Section 214 Authorizations from; Southern New England Telecommunications Corporation, Transferor To SBC Communications, Inc., Transferee, *13 FCC Rcd 21292 (1998)* ("Southern New England Telecommunications Transfer Application").

⁴⁷ See, e.g., Application of GTE Corporation, Transferor and Bell Atlantic Corporation, Transferee For Consent to Transfer Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, *15 FCC Rcd* 14032 (2000).

⁴⁸ See, e.g., Amendment Of The Commission's Regulatory Policies To Allow Non-U.S. Licensed Space Stations To Provide Domestic And International Satellite Service In The United States And Amendment Of Section 25.131 Of The Commission's Rules And Regulations To Eliminate The Licensing Requirement For Certain International Receive-Only Earth Stations, *12 FCC Rcd 24094* (1997).

⁴⁹ See, e.g., Bell Atlantic Mobile Systems. Inc. and NYNEX Mobile Communications Company Application For Transfer of Control of Eighty-two Cellular Radio Licenses to Cellco Partnership, 10 FCC Rcd 13368 (1995).

⁵⁰ Southern New England Telecommunications Transfer Application, 13 FCC Rcd ut 21305 n. 65 (emphasis added), citing Craig O. McCaw, Transferor, and American Telephone & Telegraph Co., Transferee, For Consent to the Transfer of Control of McCaw Cellular Communications, Inc. and its Subsidiaries, 9 FCC Rcd 5836, 5844 (1994).

more explicit and informative code of behavior that should govern the providers of our nation's telecommunications networks.

1. The Character Policy Qualifications Provide An Appropriate Framework From Which To Launch An Evaluation Of WorldCom And Similarly Situated Regulated Entities

The *Character Policy Qualifications* are a well-defined and established body of Commission law providing guidance as to the character qualifications that will serve the public interest. These guidelines do not require the Commission to wait until an applicant is an adjudicated felon prior to evaluating an applicant's fitness. Rather, they provide the Commission with the framework to make a decision that considers the public harm inherent in granting a license to an applicant that knowingly:

- makes a false statement to the Commission;
- willfully or repeatedly fails to operate substantially as set forth in the license; or
- willfully or repeatedly violates the Communications Act or FCC rules, such as making misrepresentations to FCC staff or demonstrating a lack of candor; or
- willfully or repeatedly violates such other laws, regulations or standards of behavior as to call into question the trustworthiness of the applicant.

The numerous civil and criminal proceedings pending against WorldCom (and the guilty pleas that have already been entered⁵') and the corporate culture of fraud and deceit they reflect demonstrates that a closer scrutiny of telecommunications company corporate behavior under the Commission's character policy is warranted. This examination will likely provide guidance for

70439v8 -18-

⁵¹ Supra at notes 64, 98, and 101

the formulation of codes of corporate governance and behavior that the Commission might require in selecting more responsible and reliable providers of our national telecommunications network. Public interest considerations demand accountability from telecommunications providers regardless of whether they serve by wire or radio, under authority of Title II and Title III of the Communications Act.

2. Need for Standards

The Commission has consistently found that certain actions by a licensee or applicant are so egregious and outside the realm of acceptable conduct that they can disqualify the licensee or applicant from holding FCC licenses. WorldCom's behavior demonstrates that regulations to prevent such behavior are urgently needed.

Until now, the Commission has broadly split character related misbehavior into FCC-related misconduct and non-FCC related misconduct. The Commission's primary concern with a licensee's violation of law, the Act, or Commission rules and policies is that such misconduct has a clear relationship with the traits of "veracity and reliability." FCC-related misconduct raises the question of "whether the licensee will in the future be likely to be forthright in its dealings with the Commission and to operate ... consistent with the requirements of the Communications Act and the Commission's Rules and policies." 53

70439v8 -19-

⁵² Character Policy Qualification, 102 FCC 2d at 1209.

⁵³ Id

"It is well settled that the ability of the Commission to rely on the representations of applicants and licensees is crucial to the functioning of our regulatory process." The requirement for absolute truth and candor from those appearing before the Commission is bedrock because the Commission must rely heavily on the completeness and accuracy of the submissions made to it by applicants who, in turn, have an obligation to provide the Commission with the facts needed to carry out its statutory mandate." Accordingly, in its quest for rules to shore up the character requirement of its telecommunications grantees, the Commission would be justified in seeking comment on rules that could be relied upon to serve at least these two goals:

- eliminate opportunities and incentives, corporate and personal, to misrepresent material facts to the Commission, and
- ensure that persons of reliable character are in command.

While misrepresentations involve false statements of fact made with an intent to deceive and lack of candor involves concealment, evasion and other failures to be fully informative. 56

70439v8 -20-

⁵⁴ MobileMedia Corporation 12 FCC Rcd 14896, 14899 (HDO 1997), citing, Richardson Broadcast Group, 7FCC Rcd 1583 (1992) (subsequent history omitted).

Communications, Inc. et al., Decision, 13 FCC Rcd 14437, 14454 (1998). See also SBC Communications, Inc. Apparent Liability for Forfeiture, Notice of Apparent Liability for Forfeiture and Order, 16 FCC Rcd 19091. 19106 (2001) ("SBC Notice of Apparent Liability for Forfeiture") ("Our decisions rely heavily on the completeness and accuracy of applicants' submissions because we do not have the resources to verify independently each and every representation made in the thousands of pages submitted to us each day"). "Indeed, the Commission's demandfor absolute candor is itself all but absolute." MobileMedia, 12 FCC Rcd at 14899, citing, Emision de Radio Balmaseda, Inc., 7 FCC Rcd 3852, 3858 (1992), rev. denied, 8 FCC Rcd 4335 (1993).

⁵⁶ See Fox River Broadcasting, Inc., DePere, Wisconsin; Jun A. Le Duc d/b/a/, American Communications Company, DePere, Wisconsin; For Construction Permit for New FM Broadcast Station, *Order*, 93 FCC 2d 127, 129 (1983) ("Fox River Broadcasting Order").

both represent deceit, differing only in form.⁵⁷ Not only does the Commission "refuse to tolerate deliberate misrepresentations," it may also premise a finding of lack of candor on omissions.⁵⁹ Candor is important regardless of the services provided, and, as will be shown, may even carry more dire consequences in the modem day arena of telecommunications than ever was the case in broadcasting. Moreover, "false certifications are abuses of the Commission's processes which waste the resources of both the Commission and legitimate qualified applicants, which may not

70439v8 -21-

⁵⁷ Id.

⁵⁸ Nick J. Chaconas for Renewal of License Station WHMC, Gaithersburg, MD, Decision 28 FCC 2d 231, 233 (1971). **See** also FCC v. WOKO, Inc., 329 U.S. 223,227, 67 S. Ct. 213 (1946); WMOZ, Inc., 36 FCC 202,237-39 (1964), aff d., 3 FCC 2d 637 (1966).

⁵⁹ RKO General, Inc. v FCC, 670 F.2d 215, 229, 230 (D.C. Cir. 1981).

⁶⁰ See, e.g., SBC Notice of Apparent Liability for Forfeiture, 16 FCC Rcd 19114-15 ("We consider misrepresentation to be a serious violation, as our entire regulatory scheme rests upon the assumption that applicants will supply [the Commission] with accurate information.") (Internal citations omitted); Liberty Productions, A Limited Partnership; Willsyr Communications Limited Partnership; Biltmore Forest Broadcasting FM, Inc., Skyland Broadcasting Company; Orion Communications Limited; For A Construction Permit For A New FM Broadcast Station on Channel 243A at Biltmore Forest, North Carolina, Memorandum Opinion and Order, 16 FCC Rcd 12061, 12080 (2001) ("[I]mmaterial misrepresentations can be a basisfor disqualification."), citing WOKO, Inc. v. FCC, 329 U.S. 223 (1946); Liberty Cable Co., Inc.; For Private Operational Fixed Microwave Service Authorization and Modifications; New York, New York, Decision, 15 FCC Rcd 25050, 25071-72 (2000) ("[T] he duty of candor requires applicants to befully forthcoming as to allfacts and information that may be decisionally significant to their applications."); The Commission's Forfeiture Policy Statement and Amendment of Section 1.80 of the Commission's Rules to Incorporate the Forfeiture Guidelines, Report and Order, 12 FCC Rcd 17087, 17098 (1997), recon. denied, 15 FCC Rcd 303 (1999) ("Forfeiture Policy Statement") ("Regardless of the factual circumstances of each case, misrepresentation to the Commission is always an egregious violation."); Garden State Broad. Ltd. P'ship. v. FCC, 996 F.2d 386, 393 (D.C. Cir. 1993) ("[D]eliberate failures to produce information can result in disqualification for lack of candor."); Fox River Broad. Inc., 93 FCC 2d 127, 130 (1983) ("Our concern with misrepresentation and lack of candor stems from the necessity of relying on licensees' representations to the Commission."); RKO v. FCC, 670 F. 2d at 229 ("As a licensing authority, the Commission is not expected to playprocedural games with those who come before it in order to ascertain the truth.'") (Internal citation omitted).

only break Commission rules, but may subject the applicant to monetary forfeitures, as well as criminal liability."61

C. Non-FCC Related Conduct is An Important Indicator of FCC Related Character

It is well-settled that the Commission views certain non-FCC related misconduct as relevant to whether a party is qualified to hold FCC authorizations and certifications. The Commission consistently focuses on three classes **of** non-FCC misconduct when evaluating the qualifications of licensees:

- adjudicated fraudulent statements to another governmental unit:
- criminal convictions involving false statements or dishonesty; or
- adjudicated violations of anticompetitive or antitrust laws in connection with FCC authorized business-related misconduct.⁶²

The Commission regularly applies these standards when considering applications for assignment of authorizations from one entity to another, and in determining whether the totality of

70439v8 -22-

⁶¹ 62 Broadcasting, Inc., *3 FCC Rcd* 4429, 4449 (1988) (internal citations and subsequent history omitted), citing In the Matter of Financial Certifications by Applicants for Broadcast Station Permits, *2 FCC Rcd* 2122, 1987 (internal citations omitted).

⁶² See Character Policy Statement, 102 FCC 2d at 1193; Policy Regarding Character Qualification in Broadcast Licensing; Amendment of Part I, the Rules of Practice and Procedure, Relating to Written Responses to Commission Inquiries and the Making of Misrepresentations to the Commission by Applicants, Permittees, and Licensees, and the Reporting of Information Regarding Character Qualifications, Policy Statement and Order, 5 FCC Rcd 3252, 3252 (1990) ("Further Policy Statement").

circumstances raises questions about the licensee's character to the level necessary to prohibit the company from continuing as a Commission licensee.⁶³

It is an understatement of extreme proportions to say that WorldCom has exhibited a lack of candor in its misrepresentations, not only to the Commission, but to other agencies of government. Those misrepresentations have already resulted in three guilty pleas of conspiracy to commit securities fraud and securities fraud along with sworn allocutions as to the crimes committed.⁶⁴ The WorldCom case has emerged as a smoking gun of unimagined proportions, leading to the inescapable conclusion that intentional misrepresentations of any kind to any institution of authority demonstrate a lack of corporate citizenship and character that must be required of service providers authorized by the Commission. Good corporate citizens should be expected to organize themselves in a fashion that reduces or eliminates the opportunities or incentives for such misbehavior before the Commission or any other institution of government when seeking to perform activities vested with a public trust or interest.

D. The Need for Standards for Telecommunications Providers to be Clarified

Herein and in its simultaneously filed Informal Objection, OC-UCC. has set out the

pernicious effects of WorldCom's misconduct. In this era of an Internet economy dependent on
rapid, efficient voice and data telecommunications, WorldCom serves as an example of behavior

70439v8 -23-

⁶³ See, e.g., Twiggs County Cellular Partnership Macon-Wamer Robins, Georgia MSA Market No. 138(B) Petition for Waiver of Section 22.944(a) of the Commission's Rules, 14FCC Rcd 9663 (1999), citing **A.S.D.** Answer Service, Inc., I FCC Rcd. 753 (1986).

⁶⁴ United States v. Myers, *Plea, Case* **no.** 02 Cr. 1261 (S.D.N.Y. Sept. 26, 2002). Ben White, WorldCom Officer Pleads Guilty to Fraud, *WashingtonPost*, Oct. 8, 2002, at E01 (reporting on the guilty plea **d** Buford "Buddy" Yates); Devlin Barrett, Two Ex-WorldCom Execs Pleads [sic] Guilty, The Associated Press, at http://news.jndlaw.com/ap_stories/high_tech/1700/10-10-2002/20021010150007 15.html.

that must be changed just as surely as *WLBT* was an icon for misbehavior a half century ago. Just as other stations were involved in reprehensible conduct similar to that engaged in by WLBT, patterns of potential fraudulent accounting practices are currently under investigation at Qwest and Global Crossing.

The accounting methods of these formerly high-flying telecommunications service providers and Commission regulatees are under investigation to determine if they artificially inflated revenue by swapping fiber-optic network capacity with each other and other telecoms with both parties recording a profit. "Imagine going to a department store and exchanging a medium shirt for a large at the same price. Now imagine that both you and the store claimed that this exchange created profit. That's what Global Crossing [and Qwest] did."65

Qwest, already laden with debt acquired largely by virtue of its voracious appetite for growth by acquisition, revealed that it improperly accounted for over one billion dollars between 1999 and 2001 and that more revelations might be on the way.⁶⁶ Qwest's accounting problems caused it to recently withdraw its applications for Section 271 authority to provide in-region, interLATA service in Colorado, Idaho, Iowa, Nebraska, North Dakota, Montana, Utah, Washington, and Wyoming.⁶⁷

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70439v8 -24-

⁶⁵ William K. Black, Repeating The Past, at: http://www.scu.edu/ethics/publications/ethicalperspectives/fraud.html.

⁶⁶ Qwest Communications International, Inc., Form 8-K, September 22, 2002.

⁶⁷ Application by Qwest Communications International Inc. Consolidated Application for Provision of In-Region, InterLATA Services in Colorado, Idaho, Iowa, Nebraska, and North Dakota, *DA 02-2230*, *released September 10*, 2002.

Qwest recently refiled for this authority under a newly created unit, Qwest Long Distance Corp. 68 In doing so, a Qwest spokesperson said that the new unit "does not have the historical financial accounting issues noted by the FCC." With respect to the filing, Qwest's attorney is quoted as saying that "[w]e're starting with a clean slate."

Should it really be that simple?⁷¹ Meanwhile, Qwest's stock, which once traded at nearly "\$200 per share (adjusted for splits)"⁷² is now trading in the vicinity of \$2 per share.

At the time, Global Crossing's bankruptcy was the "largest of any telecommunications company ... and the **fourth** largest in **U.S. history**." Global Crossing is currently being investigated by the SEC, the Justice Department and the Congress over its accounting practices and possible insider trading by its chairman, Gary Winnick. Late this summer, the Securities and Exchange Commission rejected an initial settlement proposal of the fraud charges that would require Global Crossing to cease and desist fraudulent practices, but not admit or deny guilt. 74

70439v8 -25-

⁶⁸ Scott Moritz, Qwest is Back in it for the Long Haul, *TheSireei.com,Sept. 30*, 2002, at http://www.thestreet.com/tech/scottmoritz/10045078.html.

⁶⁹ Id.

⁷⁰ Id.

⁷¹ See, UCC I, 359 F.2d at 994 (rejecting the Commission's theory that the way to cure corruption is **io** afford **an** unreconstructed wrongdoer **an** unsupervised chance to do better).

⁷² The Contrarian, Is Qwest Playing Accounting Games, Red Herring, Jan. 31, 2002 at http://www.redherring.com/investor/2002/0131/contrarian.html.

⁷³ George A. Chidi, Global Crossing Battles Accounting Controversy, *Info* World, February 8, 2002. http://www.infoworld.com/articles/hn/xml/02/08/020208hncrossing.xml.

⁷⁴ Siobhan Kennedy, SEC Rebuffs Global Crossing Proposal, Reuters Market **News**, Aug. 28, 2002, at http://216.239.37.100/search?q=cache:6WNhi_LSJ7MC:biz.yahoo.com/rf/020828/tech_globalcrossing_I.html+global+crossing+accounting+fraud&hl=en&ie=UTF-8.

Global Crossing recently announced that it signed an agreement with Hutchinson Telecommunications Limited and Singapore Technologies Telemedia Pte. Ltd., which will invest \$250 million in exchange for a 61.5% majority interest in a post bankruptcy Global Crossing.⁷⁵ Pursuant to the arrangement, Global Crossing's banks and creditors will receive 38.5% of the common equity along with \$300 million in cash and \$200 million of new debt in the form of senior notes.⁷⁶ "Existing common equity and preferred shareholders of Global Crossing will not participate in the capital structure,"⁷⁷which is a nice way of saying that Global Crossing's investors have lost the entirety of their investments in the company.

Just as in *WLBT*, an urgent need exists for the Commission to step forward and set a regulatory approach to protecting the public interest from harm. In the case of WLBT, it fell upon the U.S. Circuit Court of Appeals to remind the Commission of its responsibility to the public. Here is the opportunity for the Commission to address a dreadful situation proactively, without waiting for another branch of government to force it into action. Telecommunications must be more than a stock play opportunity if it is to play the vital role in American society that everyone from the President to the FCC Chairman envision.

Fraud in the area of telecommunications is most serious. WorldCom's, and possibly Qwest's and Global Crossing's, corporate misconduct has and will take a tremendous toll, not only on company employees, but also on the lives of average Americans. Misrepresentations by these entities can have pernicious effects on the nation's economy. Because the nation's

70439v8 -26-

⁷⁵ Global Crossing Ltd., Form 8-K, August 9, 2002

⁷⁶ Id.

⁷⁷ Id.

telecommunications infrastructure now serves as the central nervous system of the nation's and, in some ways, the world's economy, entrusted to persons of poor character or criminal intent, the cost to the nation can be enormous, with implications for our very way of life.

The Commission relies substantially upon the information provided to it by regulated entities such as WorldCom. Under longstanding Commission rules, WorldCom and other telecommunications entities such as Qwest and Global Crossing must report a variety of financial and revenue data to the Commission on a periodic basis. In particular, sections 1.785(b) and 43.21(b) of the Commission's rules require publicly traded carriers to file with the FCC "verified" copies of their 10-K reports submitted to the SEC. Additionally, carriers must annually report to the FCC their operating revenues and the value of their total communications plant at the end of that year.

These carriers must also report data on gross billed revenues on an annual and quarterly basis. This data, filed on FCC Form 499-A or 499-Q and signed by an officer of the company (along with revenue information collected on FCC Form 159 submitted in September of each year), is used by the Commission to calculate regulatory fees as well as contributions to support the agency's Universal Service Fund ("USF") program, Local Number Portability

Administration, North American Numbering Plan Administration, and Telecommunications

Relay Service program. Furthermore, international common carriers subject to section 43.61 of

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70439v8 -27-

⁷⁸ 47 C.F.R. §§ 1.785(b), 43.21(b).

⁷⁹ Id. § 43.21(c).

the Commission's rules must also report data for the preceding calendar year on actual traffic and revenue for each service provided.⁸⁰

The Commission specifically relies on the financial information supplied to it by those it authorizes. The supply of inaccurate **or** falsified data undermines the FCC's ability to rely on company-supplied data to establish and implement its regulatory objectives.

For example, WorldCom and MCI have actively participated over the years in FCC proceedings determining whether AT&T should be released from price regulation or whether the Bell companies should be allowed to offer long-distance service. If false **or** unreliable information in such proceedings skews the FCC's development of regulations, the investment decisions and competitive strategies of telecommunications carriers also will [be] misdirected, all to the ultimate detriment of **consumers**.⁸¹

The FCC itself publishes a number of reports containing and analyzing the information supplied by telecommunications entities." These reports often serve as an official record regarding the status of the market. For example, the Commission's *Statistics of Communications Common Carriers* states:

The Statistics of Communications Common Carriers (SOCC), which has been published annually since 1939, is one of the most widely used reference works in the field **of** telecommunications. It is the only permanent record of common carrier activity published by the Government Printing Office and sent to repository libraries.

70439v8 -28-

⁸⁰ Id. **\$43.61**.

⁸¹ J. Gregory Sidak, The Failure of Good Intentions, The Collapse of American Telecommunications After Six Years of Deregulation, 2002 Beesley Lecture on Regulation, October 1, 2002.

^{*2} These reports (and their latest release dates) include: Statistics of Communications Common Carriers (2001/2002 Edition); Telecommunications Industry Revenues (2002); Reference **Book of** Rates, Price Indices and Household Expenditures for Telephone Service (July 2002); Trends in Telephone Service (May 2002); Statistics of the Long Distance Telecommunications Industry (January 2001); Fiber Deployment Update – End of Year 1998 (1999); International Telecommunications Data (2000); Trends in the International Telecommunications Industry (April 2001).

Moreover, the FCC and other governmental agencies use the information from these reports to assess the condition of the market and establish regulatory policies.⁸³

Regulatory accounting data and related information filed by telecommunications carriers is used by federal and state telecommunications policymakers to fulfill various responsibilities, such as determining interstate access charges, evaluating federal-state jurisdictional separations, setting rates for unbundled network elements and calculating universal service support....⁸⁴

Additionally, the Commission uses carrier-supplied information for purposes of evaluating mergers or acquisitions, ⁸⁵ resolving carrier complaints, ⁸⁶ and managing numbering resources. ⁸⁷ It also relies on company self-reporting of data to establish and collect fees and contribution payments associated with its regulatory and support programs. ⁸⁸

70439v8 -29-

⁸³ Non-government entities—including vendors, investors and competitors—use the information to monitor and evaluate the telecommunications industry and participants.

⁸⁴ Press Statement of Michael K. Powell, Chairman, Federal Communications Commission, Re: Federal-State Joint Conference on Regulating Accounting Issues, Sept. 5, 2002, available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-225969A1.doc (last visited Sept. 16, 2002) (emphasis in original).

⁸⁵ See, e.g., Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from; MediaOne Group, Inc., Transferor, To AT&T Corp. Transferee, *Memorandum Opinion and Order*, 15 FCC Rcd 9816 (2000); Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Tele-Communications, Inc., Transferor To AT&T Corp., Transferee, *Memorandum Opinion and Order*, 14FCC Rcd 3160 (1999).

⁸⁶ See, e.g., AT&T Corp. v. Business Telecom, Inc., et al., *Memorandum Opinion and Order*, 16 FCC Rcd 12312 (2001).

⁸⁷ See, e.g., Numbering Resource Optimization, *Notice of Proposed Rulemaking*, 14FCC Rcd 10322 (1999).

⁸⁸ See, e.g., Federal-State Joint Board on Universal Service; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, *Tenth Report and Order*, 14FCC Rcd 20156 (1999).

The supply of inaccurate or falsified data jeopardizes all these efforts since it clearly affects the accuracy of the FCC reports and analyses relying on company data. Anything less than fully reliable information subverts virtually the entirety of the Commission's processes.

In order to fully perform its functions in accordance with its statutory mandate, the Commission must be able to rely on the information provided to it. But the only way it can do that is with the knowledge that the information provider is being, and will continue to be, truthful with the Commission. Only through the establishment of clear and explicit standards – and clear and explicit consequences for violations thereof – can the Commission acquire such knowledge.

V. THE FCC SHOULD CONDUCT A SECTION 403 INVESTIGATION INTO THE FULL EXTENT OF THE CHARACTER MATTERS AT ISSUE IN CONNECTION WITH ALL TELECOMMUNICATIONS AUTHORIZATIONS FOR WORLDCOM

As an adjunct to the rulemaking and so that it is fully able to gather facts and information upon which to base an empirical decision, the Commission should conduct a §403⁸⁹ investigation regarding WorldCom's activities as well as those of other entities such as Qwest and Global Crossing falling under its jurisdiction.

"Under Section 403 of the Communications Act, as amended, (47 U.S.C. § 403), full authority and power are given to the Commission to institute an inquiry on its own motion, with or without complaint, as to any matter falling within its jurisdiction." Section 403 grants the

70439v8 -30-

⁸⁹ 47 U.S.C. § 403.

⁹⁰ Tidewater Radio Show, Inc., 75 FCC 2d 670, 677 (1980), citing Stahlman v. FCC, 126 F. 2d 124 (D.C. Cir. 1942).

Commission "broad authority to investigate regulated entities" and serves **as** "the formal means, i.e. subpoena, to obtain books, records and information." ⁹²

The Commission's staff is authorized to exercise §403 power under delegated authority. The decision to investigate, moreover, is not purely discretionary ... where, as in the instant case, the Commission has reason to believe a licensee may be violating the Act or its policies, rules and regulations, ... it has a responsibility **to** inquire and determine whether, in fact, such activity is **occurring**. The commission has reason to believe a licensee may be violating the Act or its policies, rules and regulations, ... it has a responsibility to inquire and determine whether, in fact, such activity is **occurring**.

A. WorldCom's Public Admissions And The Known Facts Surrounding Its Scandals Reveal A Deep-Rooted Culture Of Fraud And Deception That Makes It A Prime Example Upon Which To Base Rules And Policies.

WorldCom's bankruptcy **is** unprecedented—not only because of the immense amount of money involved, but because the bankruptcy is a direct result of deliberate, blatant and outrageous fraudulent acts carried out by the company's senior management. While the entire scope of WorldCom's wrongdoing is not yet known, the facts already discovered—many of

70439v8 -31-

⁹¹ SBC Communications, Inc., Apparent Liability for Forfeiture, 17 FCC Rcd 7589, 7592 (2002).

⁹² James **A.** Kay, Jr., Licensee of One Hundred Fifty Two Part 90 Licenses in the Los Angeles, California Area, *Memorandum Opinion and Order*, 17 FCC Rcd 8554, 8556 (2002).

⁹³ Id., citing PTL of Heritage Village Church and Missionary Fellowship, Inc., 71 FCC 2d 324 (1979).

⁹⁴ Id., citing PTL of Heritage Village Church and Missionary Fellowship, Inc., 71 FCC 2d at 327.

⁹⁵ WorldCom, Inc. Hearings Before the S. Comm. on Commerce, Science and Transp., 107th Cong. (July 30, 2002) (indicating that there is a "directlink" between 'pastaccounting irregularities" and WorldCom's bankruptcy) at http://www1.worldcom.com/infodesk/statements/073002/.

which have been admitted by the company—reveal that WorldCom's actions were deliberate and calculated 96

On June 25, 2002, WorldCom admitted unprecedented accounting irregularities—irregularities intended to make the company look profitable when it was not. Specifically, WorldCom admitted that "certain transfers from line cost expenses to capital accounts...were not made in accordance with generally accepted accounting principles (GAAP)."

B. The Public Interest Demands Institution of a Section 403 Proceeding

Given the glaring evidence **of** WorldCom's wrongdoing, the Act, well-settled Commission policies, and the public interest demand that the Commission immediately institute an inquiry pursuant to Section 403 of the Act to fully explore the nature and extent **of** corruption and wrongdoing that was fostered by the WorldCom, Qwest and Global Crossing corporate cultures. OC-UCC. recognizes that other concurrent investigations are currently underway or recently completed at the Securities and Exchange Commission and in Congressional hearings surrounding the Sarbanes-Oxley Act of 2002. However, the SEC investigation can be expected

70439v8 -32-

⁹⁶ In addition to all of WorldCom's admissions of fraud and criminal indictments, in March 2002 the SEC investigated loans in excess of \$366 million that WorldCommade to Mr. Ebbers, which

were "thelargest apublicly traded company has given to an officer in recent memory." Deborah Solomon and Rebecca Blumenstein, Ebbers's Downfall Came in the Form Of \$366 Million in WorldCom Loans, WALLST. J., May 1, 2002. On March 11, 2002, the SEC requested information regarding loans from WorldCom to its corporate officers. WorldCom Receives SEC Inquiry, WorldCom Press Release, March 11, 2002, available at

http://wwwl.worldcom.com/global/about/news/news2.xml?newsid=2010&mode=long&lang=en&width=530&root=/global/about/&langlinks=off (last visited Sept. 16, 2002). This probe led to the eventual resignation of Mr. Ebbers on April 30, 2001. WorldCom Inc. Announces Executive Changes, WorldComPress Release, April 30, 2002, available at

http://wwwl.worldcom.com/global/about/news/news2.xml?newsid=2491&mode=long&lang=en&width=530&root=/global/about/&langlinks=off (last visited Sept. 16, 2002).

⁹⁷ WorldCom Announces Intention to Restate 2001 and First Quarter 2002 Financial Statements, WorldComPress Release, June 25, 2002, available at http://wwwl.worldcom.com/global/about/news/news2.xml?newsid=3230&mode=long&lang=en&width=530&root=/global/about/ (last visited Sept. 16, 2002) ("WorldCom June 25 Press Release").

to focus on issues surrounding securities fraud. The Sarbanes-Oxley Act, already law, addresses matters related to protecting shareholders and investors. Neither of these has as yet uncovered the full extent of corporate corruption or proposed remedies that relate to the special issue of telecommunications policy entrusted by Congress to the FCC, and neither has been nor can be expected to be concerned with such issues.

As detailed above, by Congressional design such matters fall to the special expertise and interests of the FCC. Moreover, the SEC's regulations are designed to protect shareholders and investors, whose interests may not necessarily be congruent with the interests of the ratepayers falling within the FCC's jurisdiction.

Further, OC-UCC. recognizes that the Commission usually restricts its inquiry into non-FCC misconduct to "adjudicated misconduct. However, in this case the need to develop guidance for the telecommunications industry is at a crisis point. Moreover, at least some of the misconduct can be considered to be adjudicated. David F. Myers, the Senior Vice President and Controller of WorldCom during the pertinent time period, pled guilty on September 26, 2002 to conspiracy to commit securities fraud, securities fraud, and false filings with the SEC. The Honorable Richard Conway Casey of the U.S. District Court, Southern District of New York, accepted the guilty plea and directed the preparation of a pre-sentencing report. Sentencing has been scheduled for December 26, 2002. More recently, Buford "Buddy" Yates, WorldCom's former accounting director, pled guilty on October 7, 2002 to two counts of securities fraud and

⁹⁸ United States v. Myers, *Plea*, *Case no. 02 Cr. 1261 (S.D.N.Y. Sept. 26*, 2002).

70439v8 -33-

⁹⁹ Id.

¹⁰⁰ Id.

conspiracy." According to reports, two employees under Mr. Yates are also likely to plead guilty. 102

Accordingly, a federal criminal case against a former officer of WorldCom has been adjudicated. As discussed previously, Mr. Myers' conduct is attributable to WorldCom. 103

In any event, as the Commission held in *Character Policy Qualifications*, where the conduct bearing on character is "so egregious as to shock the conscience and evoke almost universal disapprobation," the FCC may consider the effect **of** the conduct before the matter is adjudicated. The notorious conduct at issue in this case – what has been called the "largest instance of corporate fraud in the history of U.S. commerce" – surely meets this standard. 105

The Commission has ample authority to initiate an inquiry. The facts and circumstances demand that it exercise that authority in the context of the requested rulemaking.

¹⁰¹ Ben White, WorldCom Officer Pleads Guilty to Fraud, WashingtonPost, Oct. 8, 2002, at EOI. ¹⁰² Id

¹⁰³ 47 U.S.C. \$217.

¹⁰⁴ Character Policy Qualifications, 102 FCC 2d at 1205.

¹⁰⁵ Christopher Stern & Kathleen Day, **U.S.** Ready to Charge WorldCom Ex-Officers; Ebbers May Be Among Target, Source Says, *The WashingtonPost*, *July 26*, 2002.

[&]quot;Byvirtue of [§ 403's provisions and mandate], it is therefore irrelevant if (as is frequently the case) the party providing initial information to the Commission which leads to an investigation may be interested in its outcome. The decision to launch an inquiry, even in such a circumstance, is fully authorized by the Act and infact required when a sufficient showing has been made." Tidewater Radio Show, Inc., 75 FCC 2d at 678. Sections 215, 218, 220 and 403 of the Communications Act, 47 U.S.C. §§ 215, 218, 220 and 403, grunt broad authority to the Commission to require the production of any and all relevant information. Reporting Lobbying Expenses By Regulated Carriers; Revisions To The Uniform System Of Accounts, 92 FCC 2d 153 (1982); Policy to be Followed in the Allowance of Litigation Expenses of Common Carriers in Ratemaking Proceedings Revisions to the Uniform System of Accounts, 92 FCC 2d 140 (1982); NLT CORP., (Transferor) and American General Corp., (Transferee), For the Transfer of Control of WSM, Incorporated, Licensee of Stations WSM and WSM-FM, Nashville, Tennessee, 52 RR 2d 817 (1982); Petition for Issuance of a Cease and Desist Order and an Order to Show Cause Filed by ATS Mobile Telephone, Inc., Against General Communications Company, Inc., a Licensee in -34-

Moreover, if the Commission is to adopt new policies **or** rules to combat dangerous corporate misbehavior, it is very clear that it must be prepared to explain and justify them should they be challenged. The Commission cannot "escape its responsibility to present evidence and reasoning supporting its substantive rules by announcing binding precedent in the form of a general statement of **policy**." The Commission must be prepared with evidence and reasoning to support its imposition of a new rule or policy.

VI. THE COMMISSION SHOULD ADOPT RULES THAT ESTABLISH NEW GUIDELINES FOR TELECOMMUNICATIONS CORPORATE BEHAVIOR

The Commission is under a "duty to evaluate its policies [and rules] over time to ascertain whether they work" and "should stand ready to alter its rule[s] if necessary to serve

(Continued...)

the Business Radio Service, 49 RR 2d 947 (1981) (inquiry commenced under Section 403 specifically "todetermine the fullfacts and circumstances concerning the operation and use of the radio paging facility owned by GCC... and to determine whether a sufficiently substantial basis exists warranting the institution of the revocation and cease and desist proceedings ATS has requested??

Moreover, a finding that a company or companies violated the law is not a condition precedent to the convening of a Section 403 investigation. The Commission has often used Section 403 when misconduct or endemic public interest issues infect several firms in an industry, and even when no disqualifying misconduct is involved See, e.g., Payola Inquiry, 42 RR2d 847 (1978) (systemic use of off the books payments to radio station officials and announcers in exchange for airplay); Domestic Telegraph Service, 25 RR 919 (1963) {telegraph service quality}; Chicago Local Television Programming Inquiry, 22 RR 1021 (1962) (program service by local broadcasters); Network Investigation, 21 RR 83 (1961) (networks' influence over program acquisition, production and distribution); Orders No. 79 and 79-A, 8 FCC 589 (1941) (newspaper/radio crossownership).

70439v8 -35-

¹⁰⁷ Bechtel v. FCC, 957 F. 2d 873 (D.C. Cir. 1992)

¹⁰⁸ FCC v. Nat'l Citizens Comm. for Broad., 436 U.S. 775, 814 (1978)

the public interest more fully."¹⁰⁹ WorldCom merely serves as a primary focal point for the need for Commission action in this arena.

The Communications Act itself provides for regular Commission review (and the potential modification) of all regulations issued under the Act applicable to the operations or activities of any telecommunications Carrier. [I] "[I]t is clear that Congress intended that the Commission regularly evaluate its rules to determine whether they could be modified or eliminated in light of the rapidly changing, and increasingly competitive, market conditions that the 1996 Act sought to produce."" This petition demonstrates, by way of WorldCom, the increased need for Commission oversight of business practices in this post-1996 "rapidly changing, and increasingly competitive" marketplace. [112]

A. WorldCom's Actions Require a Stricter Application of Character Qualification Standards

In light of WorldCom's extreme violation of public trust and flagrant misrepresentations to the Commission, the Commission should take the opportunity to review and strengthen the character qualification requirements it applies to all FCC licensees. 113

¹⁰⁹ FCC v. WNCN Listener's Guild, 450 U.S. 582 603 (1981).

¹¹⁰ 47 U.S.C. § 161.

¹¹¹ Section 257 Report to Congress (Identifying and Eliminating Market Entry Barriers For Entrepreneurs and Other Small Businesses), 15 FCC Rcd 15376, 15440 (2000).

¹¹² Id. See also, Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996 Policies and Rules Concerning Unauthorized Changes of Consumers Long Distance Carriers, 15 FCC Rcd 15996, 16003 (2000) (reserving the right to reevaluate it's rules on slumming "if we detect an inordinate increase in slamming after [the E-Sign Act and Letter of Agency rules] take effect").

Policy qualifications, while adopted for the broadcast licenses, provide guidance for common currier considerations); See also MCI Telecommunications Corporation; For Authority to -36-

Traditionally, the Commission evaluates the character qualifications of applicants for FCC licenses by considering the **three** classes of non-FCC misconduct discussed above: (1) adjudicated fraudulent statements to another governmental unit; (2) criminal convictions involving false statements or dishonesty; or (3) adjudicated violations of anticompetitive or antitrust laws in connection with station-related misconduct. However, these classes of misconduct will not always provide the Commission with an adequate opportunity to target those individuals or companies that display a pattern of disregard not only for the rules and regulations, but basic business ethics. Rather, these classes of misconduct require an applicant or licensee be caught, tried and convicted **before** the FCC can protect the public interest. By the time a court adjudicates the matter, the harm to the public is done. The Commission should seize this opportunity to provide a more useful and complete guide as to what it expects in ethical behavior.

The Commission has expanded its consideration of character qualifications when circumstances merit. In the *Character Qualifications Modification* proceeding, the Commission found the three classes of non-FCC misconduct "overly narrow" and stated that "upon further reflection, we believe a propensity to comply with the law generally is relevant to the Commission's public interest analysis, and that an applicant's or licensee's willingness to violate

(Continued. . .)

Construct, Launch and Operate a Direct Broadcasting Satellite System at 110 [degrees] W.L., 14 FCC Rcd 11077, 11086 (1999) ("priormisconduct can have a material bearing on qualifications for non-broadcast as well as broadcast licensees")

70439v8 -37-

¹¹⁴ Character Policy Qualifications, 102 FCC 2d at 1209-10.

[&]quot;Further Character Policy Statement, 5 FCC Rcd at 3252.

other laws, and in particular to commit felonies, also bears on our confidence that an applicant or licensee will conform to FCC rules and policies." Even so, the Commission has never promulgated ethical behavior guidelines specially tailored to the telecommunications industry and its public trust.

Although some of the details and the entire scope of the fraud committed by WorldCom remain to be fully adjudicated, the flood **of** information now deluging the public and investigative government entities demonstrates that WorldCom is not "possessed **of** the requisite propensity to obey the **law**." The Commission must have a clear mechanism in place that will allow it to ferret out such propensities at the fore as well as the aft.

B. The Commission Should Adopt a Code Establishing Benchmarks for Behavior in the Marketplace

While deregulation has for the most part been good for the provision of telecommunications services, it cannot be allowed to erode the Commission's regulation of unethical business activities while increasing corporate power and influence. Without such oversight, the business activities of those who operate with the privilege of its authorization can lead to irreversible impact on the nation's social fabric and the global economy. A properly implemented code or guidelines of practice can affirmatively establish benchmarks for behavior in the marketplace. Applied consistently, such a code will not only encourage, but require Commission licensees and permittees to conduct themselves in ways that benefit not just themselves, but consumers and the national and global economy as well.

70439v8 -38-

¹¹⁶ Id.

¹¹⁷ Id.

To be effective, the code must be written in plain precise, unambiguous language *so* that it delivers the guidance required at the operational level. **A** code written in this fashion will instill notions of fairness, and enhance its credibility. Failure to write the standards in such a fashion will allow for varied interpretations and frustration of intent.

The code must contain provisions creating penalties for non-compliance. Only through the ability to impose penalties will the Commission possess the ability to cause compliance.

The code must also provide for periodic review and amendment. Periodic reviews provide the opportunity to revise and strengthen the code as necessary.

OC-UCC believes the proposed §403 investigation will demonstrate the need for several such rules and provide direction as to what specific measures would be right for the needs identified. Nevertheless, to start discussion and perhaps suggest a direction based on revelations respecting some abuses already admitted, OC-UCC proposes the following principles as suggestions of where the investigation might lead:

- Funds and/or assets will be utilized solely for a lawful and proper purpose in furtherance of its telecommunications charter, and no transfer or expenditure of such funds or assets shall be undertaken unless the stated purpose is, in fact, the actual purpose, the transfer or expenditure is authorized in writing and is for the purpose of advancing the telecommunications services authorized by the Commission. No undisclosed or unrecorded fund or asset shall be established for any purpose.
- No false or artificial entries shall be made in the **books** and records of an entity authorized **or** any of its subsidiaries or companies for any reason, and no employee shall engage in any arrangement that results in such a prohibited act.
- No document shall be destroyed in anticipation of a request for those documents from any government agency or court. Documents include, but are not limited to, physical records and electronic media such as disks, computer stored information and e-mail transmissions.

70439v8 -39-

No historical document or record shall ever be altered.

• No employee, consultant, or agent shall ever make any untrue or misleading statement to any government investigator.

- No employee, consultant or agent shall ever seek to influence any employee or any other person to provide untruthful information to any company or government investigator, or to provide any incomplete, false or misleading information.
- All Commission regulatees must adopt Corporate Governance Principles subject to Commission review and approval.
- Failure to adhere to the Corporate Governance Principles shall subject the regulatee to enforcement action including, but not limited to liability for forfeiture.

Finally, in conjunction with the Securities and Exchange Commission ("SEC"), the Commission should adopt rules governing auditor independence and the issuance of stock options to officers and directors. At a minimum those **rules** should require that:

- The external auditors of its regulatees be independent of the regulatee in accordance with SEC Regulation S-X, Rule 201 and the provisions of the Sarbanes-Oxley Act. The Commission's rules should be based on the principle that the auditor must be independent both in fact and appearance.
- External auditors should be permitted to only provide audit and audit related services and may be retained for a period of no more than five (5) consecutive years and may not succeed themselves for a minimum period of **five** (5) intervening years. The external auditor should be prohibited from providing the following categories of services:
 - o Tax compliance
 - o Tax consulting services (including tax planning)
 - o Treasury advisory services
 - o E-commerce advisory
 - o Corporate finance advisory

70439v8 -40-

- o Risk management and internal control projects
- o Consultancy (all other non-audit services)
- Appraisal or valuation services, fairness opinions or contribution in kind reports
- o Internal audit outsourcing services
- o Financial information systems design and implementation
- o Bookkeeping or other services related to the accounting records or financial statements
- Management functions
- o Executive recruiting and human resource services
- o Broker or dealer, investment adviser or investment banking services
- o Legal services and expert services unrelated to audit
- o Any other service that the Commission determines is not permissible.
- The Commission might also require that telecommunications carriers rotate the lead partner or its auditing firm every two years. Other key partners signing off on audit opinions might be required to rotate as well.
- The Commission's regulatees should be prohibited from hiring partners of the external auditor involved in the audit for a period of two years following termination of employment with the external auditor. Likewise, external auditors should be prohibited from hiring senior management of a regulatee for involvement in that entity's audit within a similar two-year period.
- The regulatee's audit committee should be required to annually conduct a review of the external auditor's independence and to certify the satisfactory completion of that review to the Commission. Any independence or conflicts of interests must be reported to the Commission within thirty days of discovery.
- Members of the regulatee's audit committee should be required to rotate off of the committee on a regular basis and the committee must be made up of independent directors.

70439v8 -41-

The Commission, again in conjunction with the SEC, should enact new requirements for publicly traded companies, including:

- Shareholder approval of stock option compensation plans
- Telecommunications companies might only be permitted to use stock option incentive compensation when they are indexed to improvements in general industry performance, rather than company share value or seeming improvements in individual company performance
- A vesting period of not less than five years for any grant of stock options to officers and directors
- Holding periods for stock acquired by an officer or director (for example, 25% of acquired stock shares may not be sold during the six month period following acquisition and 50% may not be sold during the three year period following acquisition).

Adoption of rules in this arena could serve to eliminate manipulation of stock prices for short-term gain and key their value to long-term advancement of the telecommunications industry.

The fact that one agency has regulated an area (or may do so in the near future) does not bar another from doing likewise. The Commission and the Equal Employment Opportunity Commission ("EEOC") have long regulated the area of equal employment opportunity. Recognizing that the two agencies had rules "directed toward a common goal and covering much the same area," in 1978 they entered into a Memorandum of Understanding so as to foster "cooperation and coordination [and] to increase the effectiveness of each agency's equal employment responsibilities and reduce possible duplication of effort."" In connection with the

¹¹⁸ See Memorandum of Understanding between the Federal Communications Commission and the Equal Employment Opportunity Commission *Report and Order*, 70 *F.C.C.* 2d 2320 (1978).

adoption of OC-UCC's proposed rules, the Commission should explore entering into a similar agreement with the SEC pursuant to which the two agencies could coordinate action on charges falling within their jurisdiction.

OC-UCC. wishes to emphasize that it claims no special expertise in developing principles of corporate governance and financial dealing that will serve the goals of the Communications Act or the needs of the Commission. It offers the foregoing suggestions merely **as** that – suggestions that might serve as a starting point for Commission consideration based upon the facts and revelations discovered in the process of conducting its Section **403** investigation. OC-UCC. believes that if the Commission will undertake this task, it will find the proper model for correcting and preventing abuse destructive to a thriving telecommunications industry capable of providing for all the people of the United States a rapid, efficient, nationwide and world-wide communication service with adequate facilities at reasonable charge.

70439v8 -43-

VII. CONCLUSION

Wherefore, the premises considered, Office of Communication, Inc. respectfully requests that the Commission adopt and release a Notice of Proposed Rulemaking seeking comment on the establishment of new standards of conduct applicable to all telecommunications providers receiving authorizations from the Commission and that it initiate a Section 403 investigation to enable it to develop a more complete record.

Respectfully submitted,

OFFICE OF COMMUNICATION, Inc. OF THE UNITED CHURCH OF CHRIST

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70439v8 -44-